



City Auditor

Date: January 29, 2008
To: Audit and Finance Committee
From: Gary Ray, City Auditor *GR*
Subject: Audit of Mesa Cemetery – Fee Collection and Processes

Attached is our report for the audit of the Mesa Cemetery Fee Collection and Processes for the period of July 2005 through June 2007. The first page is the Audit Report and the additional pages are Corrective Action Plans detailing audit observations, comments, and recommendations.

We are also attaching the response to the report prepared by the Parks, Recreation & Commercial Facilities Department. We would like to thank the Mesa Cemetery personnel for their cooperation and professionalism throughout the audit process.

If you have any questions, please contact me at 3210, or Jerry Faccone at 2403.

C: Debbi Dollar, Assistant City Manager
Bryan Raines, Deputy City Manager
Rhett Evans, Parks, Recreation & Commercial Facilities Director
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AUDIT REPORT

Department: Parks, Recreation & Commercial Facilities
Division: Mesa Cemetery

Audit Subject: Mesa Cemetery Fee Collection and Processes

Date Completed: October 17, 2007
Report Date: November 20, 2007
Audit Period: July 2005 – June 2007

Purpose: The objectives of the audit were to:

- Review the cash fund at the City of Mesa Cemetery and the collection of fees and revenues.
- Determine the adequacy of the policies, procedures and controls regarding Mesa Cemetery cash handling and processes.
- Determine that proper fees are collected, reconciled, recorded, and deposited in accordance with applicable policies.
- Determine that all Mesa Cemetery fees are collected and deposited.

Scope: To accomplish this audit we:

- Reviewed the internal controls over the cash handling and fee collection processes.
- Reviewed all written procedures involving the handling of cash and revenues.
- Observed the reconciliation of cash and revenue receipts.
- Performed detailed testing of samples of Mesa Cemetery transaction activity, comparing all fees to the Schedule of Fees and Charges, and tracing revenue receipts to the transaction documentation, the general ledger and the bank statement.
- Made inquiries and performed audit procedures to gain assurance that all fees were collected and deposited.

Comments: The audit resulted in a number of findings that are detailed in the attached 4 Corrective Action Plans along with recommendations for improvement.

Conclusion: The audit revealed weaknesses in procedures involving the handling of cash and revenues. This is partly due to the minimum staffing of the Cemetery office resulting in a lack of segregation of duties. Despite this situation, audit testing gave assurance that Cemetery revenues are being properly collected, reconciled, recorded and deposited. The attached Corrective Action Plans provide a number of recommendations designed to strengthen internal controls. Compliance with these should improve operations at the Cemetery and help to safeguard cash and revenues.

Corrective Action Plan #1

Audit Subject: Cemetery Fee Collection and Processes

November 20, 2007

Title:	Cash Handling
Observations:	<p>The following weaknesses were discovered involving cash handling:</p> <ol style="list-style-type: none">1) Open deposit bags are being transported from the Cemetery office without being recounted.2) Both a bank deposit and the change fund were short \$100 cash during the audit period.3) Cemetery employees who handle cash have not received formal training on cash handling procedures.4) A Cemetery fee is not included on the Schedule of Fees and Charges.5) The Cemetery Procedures Manual has not been updated for cash handling changes.
Comments:	<p>The following are details of the above weaknesses:</p> <ol style="list-style-type: none">1) Open deposit bags should not be transported from the Cemetery office. The Customer Service Clerk at the Cemetery prepares the daily deposit and inserts the monies into the bank deposit bag, but it is not sealed so the deposit can be reconciled at the Mesa Convention Center office. The Clerk signs a Cemetery Daily Revenue Report acknowledging that the invoicing of revenue for the day agrees with the deposit. The Cemetery Operations Coordinator, accompanied by a second Cemetery employee for security purposes, delivers the open deposit bag to the Convention Center where the Accounting Specialist reconciles the deposit, seals the deposit bag, and secures it in the Convention Center safe awaiting pick up by Dunbar Armored for transfer to the bank.2) A bank deposit made on Monday, 9/25/06, for Cemetery activity from the previous Friday, 9/22/06, was short \$100. The bank notified Customer Service of the shortage. Cemetery personnel did not know why the deposit was short. Also, on 2/23/07, the Customer Service Clerk discovered that the change fund, totaling \$300, was \$100 short. This was the first time the fund was counted since 12/18/06, more than two months prior, even though at the time written procedures required it to be counted on a weekly basis.3) The Parks & Recreation Division's Financial Management Procedures require that employees be trained on procedures before handling cash. Training is also mandated according to City of Mesa Management Policy #210 V1. A. 1.a., requiring employees to receive cash handling training at least every two years.4) The Cemetery charge of \$45 for a vase and insert is not listed on the City Council approved Schedule of Fees and Charges.

- 5) Cash handling procedural changes that have not been updated in the Cemetery Procedures Manual include the transporting of the daily deposit from the Cemetery to the Mesa Convention Center rather than to Customer Service, the requirement that the change fund be counted on a daily basis, and the establishment of general ledger accounts for transactions subject to privilege (sales) tax.

Recommendations: We recommend the following to improve the handling of cash:

- 1) The Cemetery Operations Coordinator should recount the deposit, seal the deposit bag, and sign the Cemetery Daily Revenue Report under the Customer Service Clerk's signature before leaving the Cemetery office to deliver the deposit to the Convention Center. This will establish a segregation of duties in the Cemetery office and will help to safeguard cash.
- 2) As now required, the change fund should be counted daily. When preparing a deposit, the change fund should be reconciled before the deposit is prepared.
- 3) Cemetery office employees should be immediately scheduled for training on cash handling.
- 4) The Schedule of Fees and Charges should be updated to include the \$45 fee for a vase and insert.
- 5) The Cemetery Procedures Manual should be updated for the changes in cash handling. The updated procedures should be submitted to the Accounting Division for approval, as required by City of Mesa Management Policy #210 V.

Corrective Action Plan #2

Audit Subject: Cemetery Fee Collection and Processes

November 20, 2007

Title: Voided Invoices

Observations: The treatment of voided invoices did not meet the City of Mesa standards for cash handling.

Comments: The Cemetery staff utilizes an Access database system to generate customer invoices. The range of invoices during the two-year audit period was #26739 through #29478, for a total of 2,740 invoices. The testing of the numerical sequence of the invoices resulted in the discovery of eight that were unused as follows:

- Invoices #27061 and #27539 were in the Access database but no information was entered on them. The Cemetery staff did not have an explanation for why they were not used.
- Invoices #28953, #28965, #28966, #29106, #29107 and #29197 were not in the Access database system and no hard copy or notation could be found in the Cemetery files. Staff recalled the database crashed while these invoices were being generated and were deleted from the system. New invoices were prepared for the customers after the database was repaired.

Treatment of the unused invoices did not meet the City of Mesa standards for cash handling, per Management Policy #210. Section VI. B.3 requires voids to be appropriately documented and approved. Sequentially numbered invoices are used to increase internal control in the area of cash handling. Proper control of the invoices can help prevent the misappropriation of funds.

Recommendations: The reason for a voided invoice should be explained in writing. The person who prepared the invoice and a supervisor should sign the explanation for the void.

Corrective Action Plan #3

Audit Subject: Cemetery Fee Collection and Processes

November 20, 2007

Title: Christmas Wreath Program

Observations: A Christmas wreath program was undertaken without the proper approval.

Comments: For many years the Cemetery has been involved in an annual Boy Scout fundraiser. Each year, a troop is selected to sell wreaths to the Cemetery for the Christmas season. The Cemetery office sends a letter and an order form to the next of kin of those deceased in the last year and to anyone who purchased a wreath in the past. The troop is informed of the number ordered and sends them to the Cemetery for placement in early December. In 2006, wreaths were sold at \$35 apiece, at a cost to the Cemetery of \$22. The quantity sold was 300, generating revenue of \$10,500 at a cost of \$6,600.

Due to the fact that the 2006 cost of the wreaths had exceeded \$2,500, Cemetery personnel had planned to go through the City's bidding process in future years, per Management Policy 200, and receive proposals from at least three troops. However, Parks & Recreation decided for 2007 to not directly sell the wreaths. Instead, Cemetery personnel mailed the cover letters and order forms to customers, requesting the return of the order forms to the Cemetery with checks payable to the Boy Scout troop. Cemetery workers will place the wreaths on the graves when they are delivered and the checks will be given to the Boy Scouts.

The Cemetery staff has mailed 800 letters to customers at a cost to the City of Mesa for postage, paper, envelopes, mailing labels, printer ink and approximately 20 hours of office labor. In addition, with the expected order of between 250 and 300 wreaths, Cemetery worker labor will be utilized for wreath placement. The estimated cost to the City for the program in 2007 is \$1,306.

The expenditures for the Cemetery wreath program are being made without the proper approval. Parks & Recreation personnel are aware of the current arrangement with the Boy Scout troop; however, the approval of the expenditures should have been made at a higher lever. The Mesa City Charter in Article III, Section 303:(F) states that the City Manager has the authority to supervise all expenditures and purchases of the City. The proper approval should be obtained for the program.

Recommendations: The Parks & Recreation Division should obtain the approval of the City Manager or the Deputy City Manager, his designee, for the Christmas wreath program.

Corrective Action Plan #4

Audit Subject: Cemetery Fee Collection and Processes

November 20, 2007

Title: Monthly Financial Reports

Observations: Monthly financial reports generated at the Cemetery are inaccurate.

Comments: The Access database at the Cemetery generates two monthly financial reports that summarize activity as follows:

- 1) The Cemetery Report lists the individual invoices for the month, allocating amounts to the specific sale or service categories and applicable general ledger accounts.
- 2) The Cemetery Report Recap presents the monthly total of each sale or service category and general ledger account.

Auditing procedures revealed that the Cemetery Reports and the Cemetery Report Recaps are inaccurate. Problems with the Access database has resulted in invoices not being included and general ledger accounts being misclassified in both reports.

Despite the problems with the summary reports, auditing procedures regarding the ongoing reconciliation of invoices between the Accounting Division and the Cemetery have given assurance that Cemetery fees are being properly collected, deposited and recorded.

Recommendations: The Cemetery staff should work with the City of Mesa Information Technology Department to correct the monthly financial reports in order to simplify the reconciliation of revenue performed between the Cemetery office and the Accounting Division.

January 18, 2008

TO: Gary Ray, City Auditor

THROUGH: Chris Brady, City Manager *CB*
Bryan Raines, Deputy City Manager *BR*

FROM: Rhett Evans, Director *RE*

SUBJECT: Department Response to Auditors Report for Mesa Cemetery dt 12-20-07

This report is in response to the Mesa Cemetery – Fee Collection and Processes Audit Draft Report forwarded to the PRCF Department by the City Auditors Office. Prior to this audit, the department has updated its cash handling policy and is conducting mandatory cash handling training sessions in January. The department policy will again be reviewed and updated to reflect any changes and/or recommendations to operating procedures as outlined in this and subsequent audits.

Cap #1: Cash Handling

When the department reorganized last year, operations were evaluated for cost effectiveness. A process that was changed was the Cemetery deposit pickups. The previous process scheduled daily armored car pickup at the Cemetery. This was cost-prohibitive. The new process now allows two Cemetery staff to drop the completed deposit off at the Convention Center to the accounting specialist or designee. It is then combined with the Convention Center deposit for armored car pickup, thereby eliminating one pickup and its cost.

1. Open deposit bags are being transported from the Cemetery office without being recounted

Response: This issue was addressed by revising the procedures for transporting Cemetery deposit bags. Cemetery Customer Service Clerks are responsible for preparing the daily deposits. When completed, a 2nd staff person verifies that deposit. The deposit is placed in a clear, plastic bank deposit bag, sealed and placed in the safe until it can be transported to the Convention Center. Upon delivery, the accounting specialist (or designee) opens the bag and counts it with the Cemetery staff person. Both sign a daily sheet to record the verified deposit.

2. Both a bank deposit and the change fund were short \$100 cash during the audit period

Response: Several internal procedures have been revised and staff instructed on managing a change fund.

- 1) The change fund is pulled out of daily cash *first* and retained. The fund is counted and recorded on a daily log;
- 2) When the change fund is short, the supervisor is immediately notified, an investigation is launched, all processes are reviewed and corrective action is taken, if necessary.

3. Cemetery employees who handle cash have not received formal training on cash handling procedures

Response: After the department reorganization last year, an internal audit by PRCF was completed at the Cemetery. A one-on-one cash handling training for change funds, reconciling

deposits and reports generated was completed with Cemetery staff. Further, mandatory department-wide formal trainings for cash handling are scheduled in January 2008. Cemetery staff are scheduled to attend. Cemetery staff will also be attending any future City-sponsored cash/credit card handling training as per Management Policy #210-Cash Handling.

4. *A Cemetery fee is not included on the Schedule of Fees and Charges*

Response: The vase fee was inadvertently omitted from the Schedule of Fees & Charges submitted to Council in FY07-08. The Schedule of Fees and Charges for Commercial Facilities has been revised to now include this fee and will be submitted for approval to the Council's Finance Subcommittee next month.

5. *The Cemetery Procedures Manual has not been updated for cash handling changes*

Response: Upon completion of: 1) the department cash handling training, and 2) City Manager's approval of the changes outlined in this report; the Cemetery Procedures Manual will be updated to include these changes. And, as per Management Policy #210-Cash Handling, the Cemetery Procedures manual will be submitted (in conjunction with the PRCF Financial Management Policy) to Finance for further review and approval.

CAP #2: Voided Invoices

1. *The treatment of voided invoices did not meet the City of Mesa standards for cash handling*

Response: Cemetery staff have created a "Voided Invoice Log". All voided invoices will be recorded on this log and will reflect the following information:

Invoice #
Date
Name of Person preparing the invoice
Reason for the voided invoice
Signature Line for Supervisor review/approval

As part of the ongoing checks and balance procedures, the Finance Division tracks all invoice numbers to ensure they are sequential and will contact the Cemetery staff to reconcile if there are any out of sequence.

CAP #3: Christmas Wreath Program

1. *A Christmas wreath program was undertaken without the proper approval*

Response: History – In cooperation with a local Boy Scout Troop, the Mesa Cemetery provides the opportunity to remember loved ones with a decorative fir wreath each year placed on grave spaces in December. This tradition has been ongoing for over 13 years. In the past, the staff created and mailed the order forms, processed the orders and payments, placed the wreaths on the graves and removed them after the holiday. The Boy Scout Troop received the wreaths from a provider, decorated them with a bow and pinecones and delivered them to the Cemetery. The Cemetery collected a \$35 fee for each wreath of which the Boy Scout Troop was reimbursed \$22.

A line item will be included in the 08-09 Schedule of Fees & Charges. The program will be further evaluated to ensure that cost effectiveness is being met.

CAP #4: Cemetery Fee Collection and Processes

1. *Monthly financial reports generated at the Cemetery are inaccurate*

Response: It was determined that the monthly summary report, which is generated from an Access Database, did not include complete revenue data. This report is submitted to Finance monthly to reconcile receipts. The Cemetery staff coordinated with ITD to update and repair this database. Upon notification of this error, ITD quickly responded to fix the database and its report. In checking with Finance, these reports are now complete and accurate.